WARNACO

The quiet company
behind some of
the finest names
in apparel

1972 ANNUAL REPORT

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Ross Graham Walker Professor of Business Administration, Harvard Business School.

Cameron Clark, Jr.
Executive Vice President and Chief Operations Officer, Warnaco.

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John W. Field
President and Chief Executive Officer, Warnaco.

William T. French
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Harold S. Hirsch
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William M. Jennings
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William S. Warner
Executive Vice President, The Hydraulic Company.

FINANCIAL HIGHLIGHTS
WARNACO INC.

	1972	1971	Increase
Net sales from continuing operations	$282,510,000	$246,108,000	14.8%
Pre-tax operating income from continuing operations	$ 13,686,000	$ 9,446,000	44.9%
After-tax operating income from continuing operations	$ 9,228,000	$ 6,648,000	38.8%
Per common and common equivalent share	$2.30	$1.65	39.4%
Fully diluted per share, assuming conversion of convertible notes	$2.18	$1.63	33.7%
Net income after provision for discontinued operations	$ 8,858,000	$ 6,921,000	28.0%
Per common and common equivalent share	$2.21	$1.72	28.5%
Fully diluted per share, assuming conversion of convertible notes	$2.10	$1.70	23.5%

WARNACO INC. 1972 Annual Report

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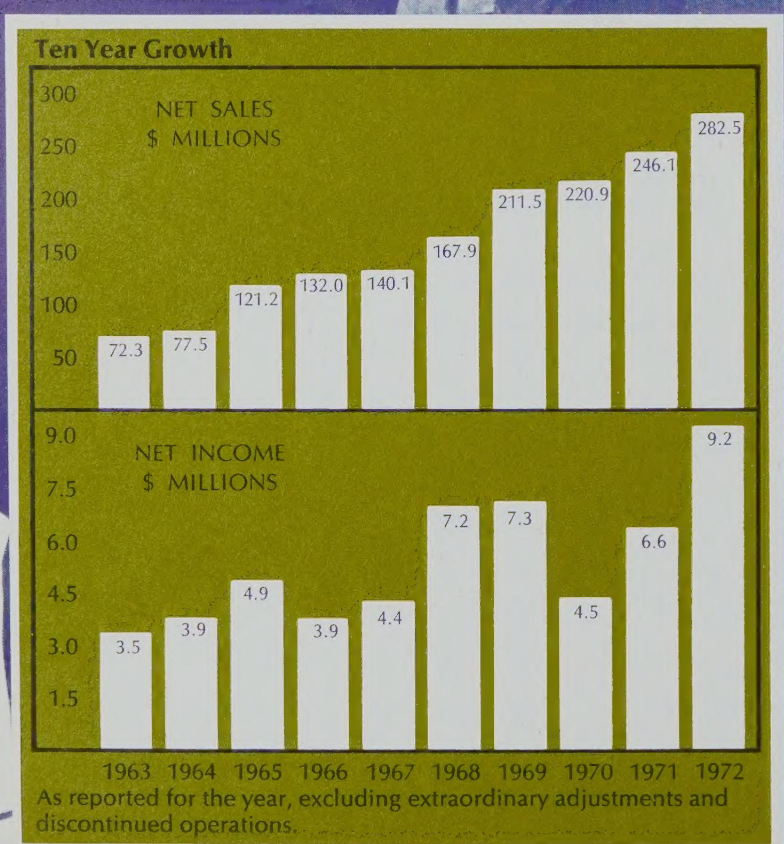
Executive Offices
350 LAFAYETTE STREET/BRIDGEPORT, CONNECTICUT 06602

Listed
NEW YORK STOCK EXCHANGE, INC. (WRC)

Common Shareowners: 4,200
Employees: 14,400



Officers

President and Chief Executive Officer
John W. Field

Executive Vice President and Chief Operations Officer
Cameron Clark, Jr.

Senior Vice Presidents
Frederick A. Downey, *Operations Staff*
James P. Gillies, Jr., *International*
Lawrence L. Rennett, *Women's Wear, Recreation and Leisure*
Gus G. VanSant, *Men's Wear*

Vice Presidents
Lloyd C. Ahlgren, *Development*
Alfred B. Booth, *Management Services*
John Detjens, III, *President, White Stag*
John S. Johnson, *Secretary and General Counsel*
Philip J. Lamoureux, Jr., *President, Warner Slimwear*
John F. Moriarty, Jr., *Market Relations*
Harold Rudominer, *Merchandising*
Leonard G. Saulter, *President, Hathaway*
Lloyd S. Schaper, *President, Puritan Sportswear*
Jerome Silverman, *President, Jerry Silverman*
Jack M. Weiss, *President, Gus Mayer Stores*

Controller
Kenneth H. Neal

Treasurer
Frederick M. Robison

John W. Field, left, President, and Cameron Clark, Jr., Executive Vice President, in Warnaco's new Eastern Regional Computer Center.

To the Shareowners:

1972 was a record year for Warnaco. On continuing operations sales rose 15 per cent to $282,510,000 and net income increased 39 per cent to $9,228,000. After adjusting for the operating losses and liquidation costs of our lingerie division, which was liquidated in the fourth quarter, and for the operating income of our packaging division, which is now being sold, net income was $8,858,000, a gain of 28 per cent.

On a per share basis, net income from continuing operations was $2.30 per share compared to $1.65 last year and $2.21 compared to $1.72 after discontinued operations. Fully diluted, these figures became $2.18 and $2.10, respectively, compared to $1.63 and $1.70 for last year.

We had profit gains in all four quarters of the year, including the last, thus giving us eight consecutive quarters of profit improvement. Of significance is the fact that on continuing operations, shipments rose 18 per cent in the last quarter and profits rose 27 per cent. It was the most profitable quarter in Warnaco's one hundred years of business.

In addition to the volume increases registered by almost all our divisions, profit margins were materially improved. For the year as a whole, pre-tax profits, again on a continuing basis, increased 45 per cent.

It is interesting to note that we came out of the year almost exactly on plan, even after absorbing the costs of phasing out our unprofitable lingerie unit. This says much for the maturity of our planning and budgeting systems.

All four of our major divisions showed improvements, with White Stag, Puritan, and Hathaway having the best year in sales and profits in their histories. Warner Slimwear had its best year since the days of the Stretchbra in the early sixties, its profit in 1972 surpassing all years back to 1964. We are very proud of Warner's resurgence in a continuing difficult intimate apparel market.

But Warnaco is not a company where only the larger units are important; approximately one-third of our total profits come from our smaller divisions. In 1971 Rosanna, Hirsch-Weis, High Tide, and International, including our newly acquired Canadian company, Croydon, had peak sales and profits. Gus Mayer's sales were ahead but profits declined slightly. A major factor in the profit slowdown of the quality women's specialty stores, as well as of the Jerry Silverman division, has been the fashion swing away from dresses.

Medford knitting mills had profit problems in 1972, but we are confident that the installation of its own finishing plant, scheduled for this spring, plus changes in management will improve Medford's situation.

The year 1972, we believe, has again demonstrated the basic soundness of our diversification program; i.e., not to be too dependent on any one specific product, fashion, look, or material. Since 1962, a 10-year span, we have increased our absolute dollars of profit at a compounded growth rate of 16 per cent and our earnings per share at a 6.5 per cent rate, considerably better than the average U.S. company.

In our 1971 Annual Report we commented that while results were encouraging they were still below the optimum earnings level for Warnaco. The same thing can be said this year. We still have a way to go to reach optimum levels. Yet we seem to be on our way. Recently we have completed projections of our products, markets, personnel, production facilities, finances, sales and profits through 1976, and established goals for ourselves to reach by that year. If reached, the results will be eminently satisfying to all our stockholders.

And I must say that I believe we will reach these goals. As they say of boxers, we are at a good fighting weight. Our planning, control, and information systems are sound and being refined steadily; our managers are performing effectively; product diversification has become broader with less reliance on particular classifications or markets, and we have increased strength in areas attuned to modern lifestyles, particularly sportswear. (About two-thirds of our budgeted profits for 1973 will come from sportswear, or sports related items.) While planning to diversify further, particularly with partners expert in overseas markets and resources, we are in a position to be most selective in regard to acquisitions.

Of course, the quest for correct balance of products and classifications sometimes also calls for reverse diversification or divestment, especially in cases where units are unprofitable, producing too low a return on investment, or out of the mainstream of corporate development. We had two such cases last year:

- We phased out of lingerie, keeping only a few items directly coordinated with our Warner's girdle and bra business. This was a product area where we had exposure to losses but not much opportunity for satisfactory profits. By getting out, we have freed our management and our capital to concentrate on areas of greater potential.
- We are selling our profitable packaging business at a substantial capital gain. This was a particularly difficult personal decision for me and most of our senior management because we have been a part of the packaging industry for many years and the people of Warner Packaging were, and remain, our close friends and associates. But the decision was made, not only for Warnaco, but for them too. Packaging is out of our mainstream. It was becoming more difficult to give the division the financial support and the corporate management attention it deserved. As a part of Rexham Corporation, a company entirely in the packaging business, the division should get that attention. Meanwhile, we at Warnaco will be able to concentrate our management and our resources on the business we know best — apparel.

We at Warnaco continue to believe steadfastly in the apparel business, especially in its potential for substantial future growth and future profitability. It is undoubtedly one of the most promising, and fascinating, of the world's industries. Yet there are many people who fail to recognize this promise. Evidence of this lies in the low ratio of stock price to earnings accorded the industry in recent years.

Operating Groups

MEN'S WEAR

Hathaway
Dress shirts, sports shirts, knitwear, casual wear, OtherWear.®

Puritan
Sweaters, knit shirts, slacks, outerwear, tenniswear.

Cresco
Sports outerwear, leatherwear, slacks.

Thane
Better knit shirts, sweaters, sweatershirts.

Also, 20% interest in CBS Imports Corp.

WOMEN'S WEAR

White Stag
Women's sportswear, outerwear.
Junior sportswear coordinates; girls' wear.

Rosanna
Sweaters, slacks, knit dresses, tailored tops.

High Tide
Swimwear, sportswear.

Jerry Silverman
Fashion dresses.

Medford-Playmore
Single, doubleknit fabrics; knit sportswear.
Playmore girls' wear.

INTIMATE APPAREL

Warner's
Bras, girdles.

Beautiful Bryans
Hosiery, pantyhose, body stockings.

RECREATION AND LEISURE

Hirsch-Weis
Camping, water sports equipment; racing swimsuits.

White Stag
Men's and women's skiwear, tenniswear.

INTERNATIONAL

Warnaco of Canada
Croydon rainwear, outerwear; Hathaway shirts; Warner's bras, girdles; Botnick companies (High Tide and Speedo swimwear, White Stag tennis and skiwear).

Warner's Europe
Girdles, bras, swimwear on the Continent and the British Isles.

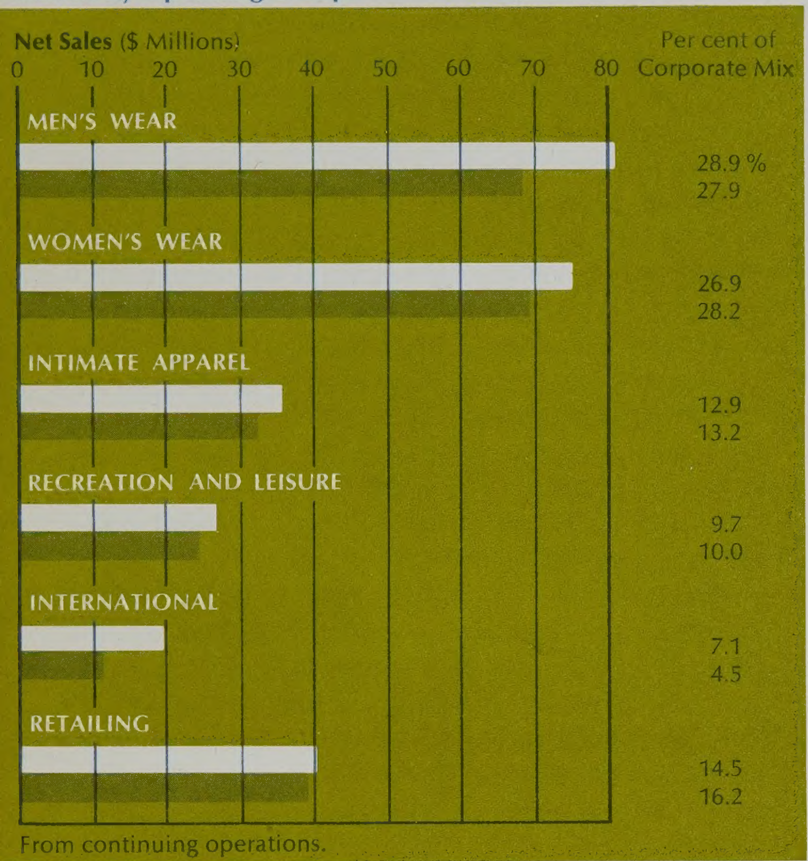
Also, Manufacturera Warner's S.A. de C.V., Mexico City, Mexico; 43 licensees in 25 countries; interests in Jupiter S.A., Paris, France, Laurentian Marketing Company Ltd. (Hathaway shirts), London, England, and Speedo Holdings Limited, Artarmon, New South Wales, Australia.

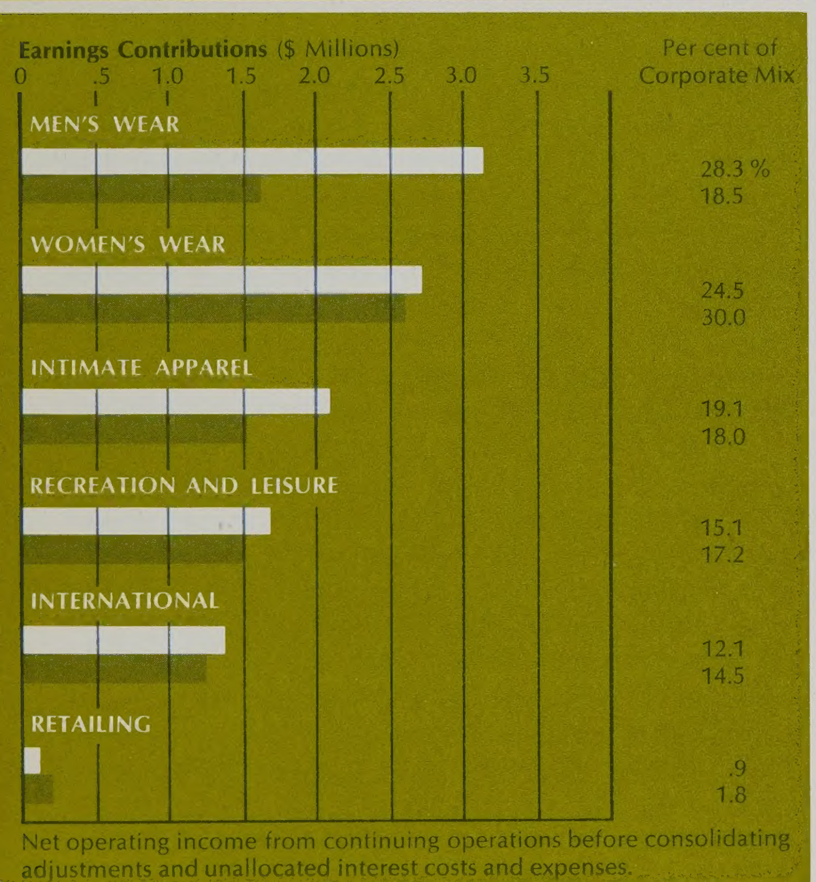
RETAILING

Gus Mayer
Women's quality specialty stores under the Gus Mayer name (South and Southwest); Blum Store (Philadelphia area); Berkeley's (Fresno, California).

Results by Operating Groups

1972 1971





Apparently the apparel industry is still envisioned by many people as dominated by the 25,000 or so smaller companies that are heavily dependent on the vagaries of fashion change and on the entrepreneurial skill of highly creative people, close to markets, who do not have the time, disposition, or knowledge to manage on a large scale. On the contrary, we believe that large, professionally managed companies are emerging and that their opportunities are the greater because of the industry's fragmentation. Such companies have distinct advantages. Among them are their abilities to:

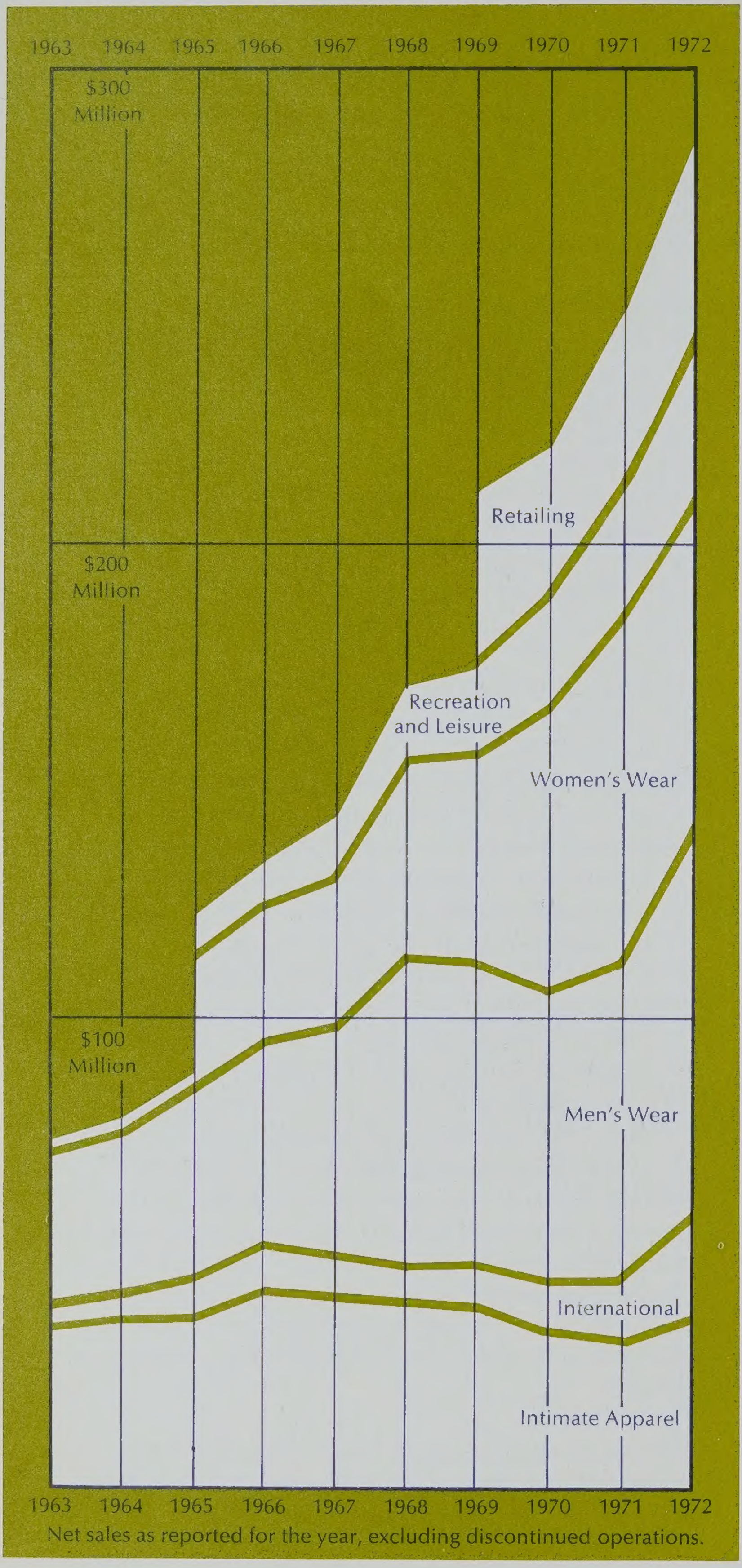
- Offer management and administrative help to talented people, thus freeing them for creative activity and backing them with greater resources.
- Apply benefits of size and scale in computers, financing, information flow, research, technology, manufacturing, marketing, advertising, and management development.
- Assist the major fiber and fabric producers with new product developments on a scale significant enough to make such improvements quickly viable.
- Work with major stores to gain immediate acceptance of new ideas and new products. Large retailers need large suppliers.
- Apply top standards for quality control throughout all products and divisions.
- Provide a forum for consultation and communication between peers. Large, diversified companies can enable designers in one product area to talk to, and learn from, designers in another related product. The same is true of production managers, sales managers, advertising managers, controllers and division presidents.
- Above all, enable the techniques of modern business management to be used in the apparel industry. These techniques include professional planning, budgeting, and financial controls.

Within these obvious advantages enjoyed by the large manufacturer, it is still possible for a company to remain responsive to fashion changes and market turns through organization into relatively small units with individual autonomy and strong profit incentives. That is the kind of company we believe we have created at Warnaco.

All this, of course, would be of little value if the apparel industry itself were not growing. Fortunately, this is not the case. Apparel is a major growth area.

Since 1960 the portion of disposable income spent on apparel has remained at 10 per cent (in contrast with the decline in food and tobacco from 27 per cent of disposable income in 1960 to a projected 19 per cent in 1980). Disposable income has meanwhile continued to grow at a steady 6 per cent and promises to do so well into the future. This indicates a total apparel market increase of at least 6 per cent a year.

Ten Years of Diversification — Net Sales by Groups



Net sales as reported for the year, excluding discontinued operations.

Within this total apparel market we foresee an even more favorable increase for companies like Warnaco which specialize in products attuned to the life styles of today and tomorrow — active and spectator sportswear, casual wear, products identified with leisure activities. In these classifications it is estimated growth will be even more rapid:

- Women's sportswear, which was a $1.8 billion business in 1967, should hit $3.7 billion by 1977.
- Men's knit sport shirts, $164.3 million in 1967, should be $500 million by 1977.
- Men's shirts, $397 million in 1967, should be $800 million by 1977.

Even the bra and girdle market should benefit from the demographic changes of the future. The war babies are growing older and the girls will need some figure control. Market forecasts indicate that the downward trend in girdle purchases will be reversed and that from 1972 through 1977, the girdle market will grow at a 5 per cent rate. Bras, meanwhile, which have never shown a decline, will continue to increase at a steady 7 per cent and the total bra business, which was $362 million in 1967, will be $660 million in 1977.

As for the immediate prospects for 1973, we start out with several favorable factors. As of this writing, our total spring orders are ahead 15 per cent. Advance ordering has been especially strong in Warner Slimwear, in White Stag and Puritan sportswear, in Rosanna sweaters, High Tide swimsuits and at Hathaway and Logan Shirtmakers. Our dress business at Jerry Silverman, after several desultory seasons, is showing signs of life, materially helped in this case by strong advance acceptance of a new fashion dress line for sizes 12 through 20.

We should also be helped by the continuing improvement in our pre-tax margins, brought about primarily not by price increases, but by reductions in costs and by manufacturing efficiencies. Fortunately, we see no immediate profit threats to Warnaco in the margin limitations announced under Phase III.

One of the important developments of 1972 was the emergence of a strong and viable profit entity in Warnaco of Canada. This company, which in 1972 consisted of Warner Slimwear in Canada, Hathaway of Canada, and Croydon, was materially strengthened at the beginning of 1973 by the addition of the Botnick companies of Montreal, licensee in Canada for White Stag skiwear and tenniswear, Speedo racing swimwear, and High Tide swimwear.

All these favorable factors indicate that our sales and profits should continue to show an upward trend. However, it is obvious that we are now at a higher earnings level and we probably cannot expect the percentage of quarterly or yearly gains to continue at

last year's rate. The first quarter, with its indeterminate timing of shipments, is always hard to predict. Our full year results, however, should continue to improve the broad profit trend line enjoyed by Warnaco in the years of our diversification program. Earnings given up in the sale of Warner Packaging will be restored through interest savings on debt reduction, rent from the Packaging plant retained by us, and new income from Botnick in Canada and from Gordonia-Debrette, a slimwear firm acquired in Great Britain.

Reflecting the improvement in our profits, the Board of Directors at its February 1973 meeting voted to increase the common stock dividend to the level of 80 cents per share per year.

Warnaco will be 100 years old in 1974. It was just a century ago that the Doctors Warner started their small factory in McGraw, New York, to manufacture health corsets for women patients suffering from all manner of intricate pains brought on by the whims of fashion. Those fashions have changed dramatically through the many years (mostly for the better) and so has Warner Brothers, now Warnaco. Today we are one of the world's largest apparel manufacturers, having survived and reasonably prospered through years of trial and tribulation, war and peace, depression and prosperity. If there has been one constant to characterize the changing company over the many years, that constant has been its devotion to fashion and to quality. Our challenge, then and now, is to equate the many caprices of fashion with our stockholders' need for profit consistency. With this goal in mind, we look forward to the next 100 years with both enthusiasm and anticipation.

Through the past year those of us in Warnaco management have been sustained by the loyalty and support of our stockholders, our fellow employees at Corporate and in the divisions, and our directors, who comprise a dedicated and unusually talented Board. We regret that we will be losing the services of Herman D. Ruhm, Jr., former chairman and chief executive officer of Greenwood Mills Inc., who has reached retirement age. Mr. Ruhm has served as a director of Warnaco for 10 years and his wisdom inculcated through long years of textile experience, his invigorating challenges, and his yeasty humor will be sorely missed by all.

John W. Field
President

March, 1973
Bridgeport, Connecticut

Jerry Silverman's touch applied to palazzos.

REPORT ON OPERATIONS

Warnaco's 1972 results reflect the initiative and drive of many talented people and they highlight the importance of targeting and serving specific markets – having the right products in the right places at the right times.

Men's Wear

Among group operations, men's wear produced the largest volume and profits in 1972. The group's performance was highlighted by record sales and earnings at both Hathaway and Puritan, the two large components making up about 80 per cent of group volume. Other units comprising this group include Hathaway OtherWear®, started last year to test entry into better priced, coordinated men's sportswear; Cresco and Thane, each separated from Puritan last year in line with corporate policy of keeping units specialized and close to their markets; and Warnaco's 20 per cent investment in CBS Imports Corp., a major importing company with the bulk of its activity in men's wear.

Hathaway has been concentrating on expanding markets and improving manufacturing, to boost profit margins. Dress shirts have been one of the strongest categories in men's wear during the past several years. Although some general leveling at a high plateau is anticipated, Hathaway, as a fashion leader, expects to be able to continue volume increases. At the same time, the division has been developing major profits from more casual items, like the Hathaway Golf Classic® sports shirts made famous in the tournament appearances of Jack Nicklaus.

Other new areas under development, besides OtherWear®, are Hathaway Patch®, a tailored women's version of the classic dress shirt, and Logan Shirtmakers. This private label business started in 1972 has been notably successful, putting the division strongly into the large dress shirt segment just below Hathaway brand price points. Logan production, including shirts coordinated with the Johnny Carson clothing line, is expected to double in 1973.

With mainland plants at peak capacity, Hathaway is focusing on increasing production at its Ciales, Puerto Rico facility, where a 50 per cent gain has already been effected.

Hathaway's Golf Classic® shirts win regularly with Jack Nicklaus.

Puritan's vigorous marketing techniques have gained for that division the largest shares of the branded markets both in men's knit sport shirts and in sweaters—more than 20 per cent of each market by recent estimates. Puritan knit sportswear now outsells the chain store competition as well and proves out in studies as the most profitable resource for many men's sportswear departments.

These accomplishments were accompanied by a strong entry into men's coordinated sportswear in 1972. A selling technique based largely on a similar concept in women's sportswear, coordinates hold particular promise for Puritan, because the ratio of tops to bottoms in such purchases ranges up to 8-to-1. Its strength as a tops maker also makes Puritan that much more important a supplier to coordinates departments.

Golf and tenniswear have been growth areas for this division also, with strong promotion on the links by Gary Player and at the net by Rod Laver. Laver's Puritan "blues" have helped set off a color revolution among previously white-clad pros and amateurs at all levels of play.

As separate reporting entities, Cresco and Thane have strengthened their operating staffs substantially. Both set volume records in 1972, benefiting, like a number of other divisions, from the return of more elegant tastes in style.

Cresco's merchandising and marketing were re-oriented. Emphasis on quality outerwear continues, with the very modern Ashland, Ohio plant at full capacity on leatherwear only, reflecting the growth in demand for this category. A strong cloth capability was added with the acquisition of the Bradley plant in Cleveland, Tennessee in mid-1972. In addition to putting the division into spring and holiday seasons, Bradley gives Cresco another dimension. Currently, leather products are in strong demand, but alternative capabilities, including leather-like substitutes, are good insurance.

With its expanded capacity, Cresco is well positioned to handle not only its own brand and private label needs, but to serve as a manufacturing resource as well for Puritan, Hathaway and White Stag, among other Warnaco divisions.

Puritan blues win with tennis great Rod Laver.

Thane too has strengthened its marketing, continuing its specialization in better knitwear and expanding to meet growing demand for quality men's knit shirts, sweaters and sweatershirts. The division is enlarging its customer list of better departments and stores, and is poised to work not only with its traditional suppliers, but also with other resources, domestic and foreign.

A separate company that Warnaco can fully acquire under options running to late 1974, CBS Imports is of special interest because of its overseas contracting expertise, particularly in the Orient. This can be extremely useful to men's and other divisions, and Warnaco in turn can be helpful to CBS in development of additional import lines for its chain and department store customers.

Imposition of quotas last year resulted in a general trading up in import price points, with the effect of increasing CBS dollar volume and profits. Warnaco's share of these earnings is consolidated with men's group net, although CBS volume is not reflected at this point.

Women's Wear

The women's wear group includes White Stag, Warnaco's largest division, Rosanna, High Tide, Jerry Silverman and Medford-Playmore.

White Stag set new sales and earnings records again in 1972. The division has grown to some $51 million in volume, including skiwear, from comparable sales of about $30 million in 1966, when it became a part of Warnaco, and from $6 million just two decades back. This development has, of course, paralleled the rise of sportswear as a wardrobe staple. In many ways White Stag has shown the way, becoming the look and the line that others try to emulate in sportswear.

Cresco suede illustrates the return to classicism in style.

Thane knitwear features fashion overtones.

Because of this growth, three separate product divisions were established within the division in late 1972, each with its own president reporting to the overall White Stag president and each having its own merchandising and sales management organization but utilizing joint sales, production, promotion and operating services. This reorganization will enable White Stag to focus more sharply on its three basic and separate markets — misses' sportswear and outerwear, ski and tenniswear, and a junior and girls' wear grouping which includes the new Allison's Closet® line for sophisticated young women of varying ages who wear junior sizes. This move responds to the requirement of consumers and stores for more frequent seasonal offerings, which has resulted in White Stag's now showing a total of 12 lines a year.

Plans for 1973 will continue the emphasis on specific product groupings, supported by systems modifications to service growing volume. Major increases in capacity are being implemented with the opening of 240,000 square feet of additional plant and warehouse space at the Murfreesboro, Tennessee complex, which will greatly facilitate "together" delivery of coordinates.

Rosanna, a knitwear specialist of White Stag until two years ago, has done very well on its own since then. Sales and profits set records again in 1972, with net income rising 97 per cent on a volume increase of 25 per cent. Rosanna's merchandising has capitalized on the current sweater popularity and the trend toward sweater separates in women's wardrobes, plus the emergence of the so-called "contemporary" departments in stores. Rosanna's SW 1® and SW 2® lines — tops and bottoms and tailored shirts styled in Europe and named for the postal zones of London's fashionable West End — were extremely successful entries in the new contemporary market.

White Stag's sportswear look —
the way America's going.

The basic Rosanna line, with its wider sweater style offerings, concentrates on better misses' departments. In 1973, the division will continue to strengthen its design operations in Italy and New York, and will take further advantage of style developments in importation of knitwear from Europe, the Far East and South America. Plans for 1974 include a broader sportswear offering through the addition of pants, shirts and sweater dresses, emphasizing a classic look in fabrics, yarns and patterns.

High Tide's bikini operations produce anything but "skimpy" results. Volume and profit records were broken again in 1972. High Tide is becoming less dependent on bikinis and the weather, moving gradually into junior sportswear through cover-ups designed as separates and for use with its swimsuits. Utilizing the same fabrications, design talent and manufacturing, High Tide has moved 40 per cent of its bookings into styles that include long and short dresses, as well as palazzo pant sets.

Pre-testing of customer fabric preferences is helping High Tide plan lines that sell better than ever. The division is also continuing to target its brand with more of the large-volume retailing giants, to supplement its already strong position as a private label supplier to the chains.

While many signs point to the return of the dress business, Jerry Silverman is not just waiting for it. Profitable again in a year that saw the demise of any number of dressmakers, this division to a degree joined the competition in 1972 by making some classic non-dress items, such as the palazzo outfit pictured in this report, but without retreating from its position as a major dress resource for better stores and departments.

More important, the Silverman division moved strongly into the void in fashion dresses in sizes 12 to 20 through a new division, J. S. Ltd.

Medford is the one continuing division that had major problems in 1972, failing to reach profitability or a volume increase. An important move toward a remedy here was the reassignment of a manufacturing executive from White Stag to the presidency of Medford. This spring the division will open its own dyeing and finishing plant, adjacent to present New Jersey facilities. The importance of having its own finishing facilities can hardly be overstated in the case of a knitter competing in the domestic market, where flexibility plus customized, quality-controlled and speedy service can provide the edge over imports.

Rosanna is typified by this sweater jacket with ribbed emphasis.

Beautiful Bryans unites bodyshirts and pantyhose.

Medford already has impressive knitting and sewing capabilities, combined with an important in-house fabric design and development capability. The dyeing and finishing plant will make it possible to merchandise this division's versatility more competitively to its target markets — other Warnaco divisions, private label business for chains, the Playmore division, and a few selected outside customers.

Playmore, the division's most important single customer, was merged into Medford at the start of 1973 in a move designed to produce administrative economies, at the same time strengthening Playmore's profitability in a price conscious girls' wear market.

Intimate Apparel

Warner Slimwear and Beautiful Bryans pantyhose make up Warnaco's intimate apparel group.

The challenge in a girdle and bra market that has not been experiencing the growth seen in other apparel categories has been for Warner's to capitalize on the attrition among other makers and to increase market share, both in branded and private label business. With its emphasis on pre-testing and development of fewer offerings with established customer appeal, Warner's has been able to do this and score some of the best profit margins among Warnaco's larger divisions. In its branded business, vigorous "sell-out" promotions and Money Maker® hanger displays have been extremely effective. The division also continues to increase its share of private brand chain store business, and recently started a low-priced "Valeur"® line for sale on department store main floors away from slimwear departments.

A close ally of this marketing approach in Warner's profit resurgence has been its emphasis on detailed customer service and manufacturing efficiency. Concentration on motivational techniques and superior operator training, plus continual streamlining of plant operations, have resulted in dramatic productivity gains that are continuing. The new Juarez, Mexico plant is considered a model in the industry, as will be the La Romana plant now nearing completion in the Dominican Republic.

Beautiful Bryans merchandises quality pantyhose and bodyshirts to a small list of fashion conscious stores and boutiques. Geared for limited volume in the $2 million area, this is a versatile operation that can experiment without major capital commitment in such specialties as sandal-footed pantyhose, bodyshirts coordinated with hose, and novel colors and ornamentation.

Warner's is a soft and dreamy look in intimate apparel.

The division's most significant experiment to date is with a new snag and run resisting process. If successful in market tests now underway, this could be a development that would go into major production.

Recreation and Leisure

The recreation and leisure products group consists of Hirsch-Weis camping gear, water sports equipment and swimwear from the same maker, plus ski and tenniswear by White Stag, for both men and women.

White Stag, the world's largest producer of skiwear and pioneer in this field, is positioned to increase its share of this market still more under the division's reorganization into units that can be extremely close and responsive to their markets. Skiwear, plus tenniswear introduced last year under the Stagwhites® label, constitute one such group within the division.

Hirsch-Weis, the original name and company from which White Stag descended, has repeatedly reached high profit margins and set new sales and earnings records as a separate unit, including 1972. Its name, in concert with the translation from German to White Stag, is a premium label on tents, sleeping bags and back packs. It is fast gaining the same distinction on scuba diving and water skiing gear. The wet suits are produced by the newest sewing and fusing methods at Hirsch-Weis' new Marina del Rey, California plant.

Last year's Olympic Games in Munich brought new popularity to White Stag-Speedo racing swimsuits distributed exclusively in the United States by Hirsch-Weis and in Canada by one of the Botnick companies just acquired by Warnaco of Canada. The design of Warnaco's Australian affiliate, Speedo Holdings Limited, these suits were selected by 52 of the 54 Olympic swimming teams and were worn by 21 of 22 world record breakers and 26 of 29 gold medalists.

The White Stag-Speedo line is expanding rapidly, with a Minimates® selection of suits and cover-ups for slightly less avid competitors. These are being merchandised to a wider group, adding better sports departments at major retailing outlets to the traditional group of sporting specialty stores.

High Tide bikinis add cover-up features.

Stagwhites® are White Stag's imprint on tenniswear.

International

International operations made strong strides in 1972 — and new sales and profit marks.

In Canada, as indicated earlier, acquisition of Croydon, the major rainwear and outerwear label, added substantially last year to the operating base that Warnaco of Canada already enjoyed through Warner's and Hathaway. This growth is enhanced further with the addition, effective now, of our Botnick licensees and could be enlarged to the area of $25 million or more of Canadian sales by early 1974, if Warnaco of Canada exercises options to buy the presently separate White Stag group in Canada. This includes licensees there for White Stag women's sportswear and Don Parker, the large men's slacks and sportswear company in Edmonton, Alberta.

With these developments, the sale of a part interest in Warnaco of Canada to public investors in that country, and stock exchange listings there, are very realistic prospects.

Creation of a similar Warnaco of Europe is a considerably longer-range goal, but a real one.

With the enlargement of the European Economic Community to include the British Isles and Denmark, and in anticipation of a more unified merchandising approach as the larger Common Market develops, Warner's European operations are being substantially expanded. The acquisition of the Gordonia-Debrette girdle and bra plants in England's Midlands, at Nottingham and Scunthorpe, has already more than doubled sales and manufacturing capacity in the United Kingdom. Shortly, a second plant will be opened in Belgium, at Dour, near the present main facility at Frameries.

For the present, Warner's is extending its strong brand acceptance in France and the Benelux countries to the very promising West German market. Licensee arrangements are being improved elsewhere in Europe, while a small fashion swimsuit line started last year is being gradually expanded to appeal to a wider range of customers.

The International group also administers Warnaco's 34 per cent interest in Jupiter S.A., the high-style French rainwear, sportswear and slacks maker, and its minority holding in Speedo Holdings of Australia, along with licensee relationships around the world.

Hirsch-Weis and its White Stag variation are names known from timberline to water's edge, where White Stag-Speedo swimsuits win in Olympic and other competition.

Retailing

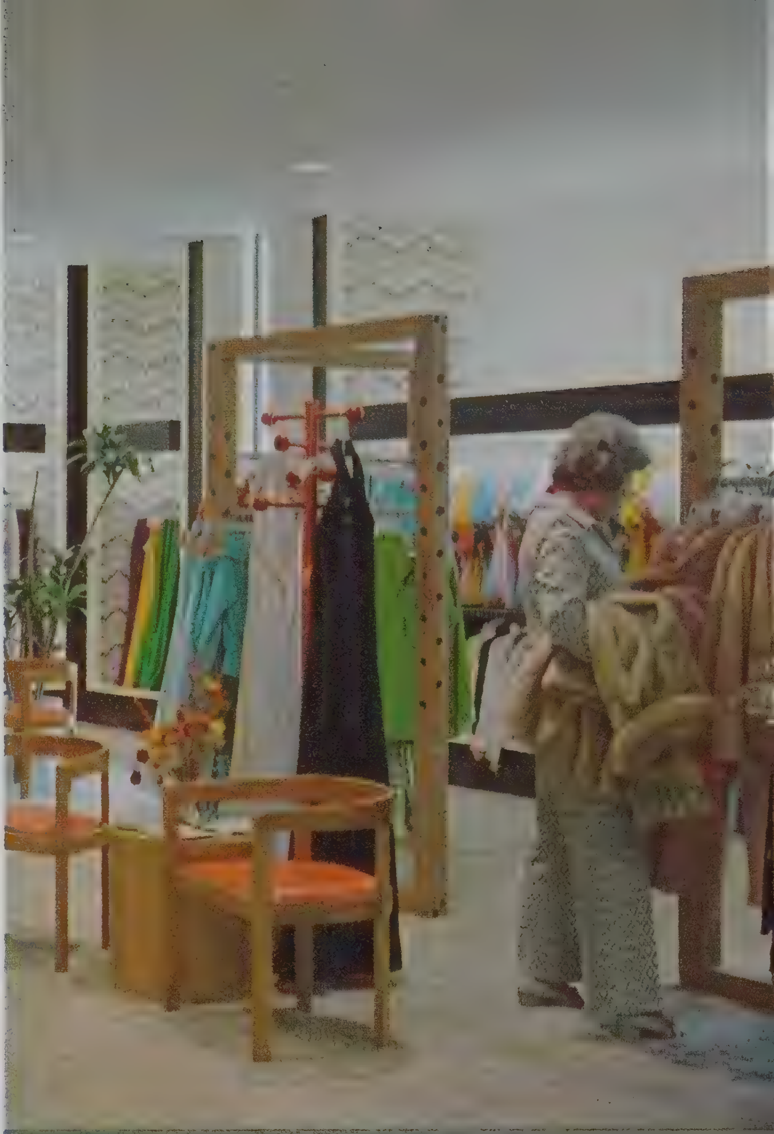
The diffident dress market was a factor, but only one, in reduced profitability at the Gus Mayer stores in 1972. A greater emphasis on sportswear, including a strong representation of imports, helped volume. But start-up problems with the division's new central receiving, tagging and distribution center in New York, intensified by delivery problems with vendors, kept sales from rising to a point where profitability could move ahead. The efficiencies of central buying, advertising, administration and distribution should translate into higher profits as new or expanded stores add sales.

In February of this year, a 15,000-square-foot unit was opened in the Utica Square Center out of downtown Tulsa, Oklahoma. This month, the suburban Green Hills shopping center store near Nashville, Tennessee was moved to nearby quarters nearly twice its original size. In the Philadelphia area, the Blum stores have been completely reorganized; the flagship store downtown was renovated, and a fourth store will be added south of Philadelphia at the Exton Square shopping center, by summer. Also by summer, the Memphis area will have its fourth Gus Mayer store, in the Kirby Woods Mall center in Germantown, and the downtown store in Beaumont, Texas will be replaced by a larger unit in a center on the outskirts of that city. Early next year, the Gentilly store in New Orleans East — the group's first suburban store — will be replaced by a larger, single-level store in a new shopping mall in the same area.

One Company

Warnaco is a highly diverse company, planned that way against the fluctuations in fashion, but it is diverse in a very unified way. It is not a conglomerate. The parts that make up the whole have common purposes and needs, deal quite often with the same customers, produce on similar machinery, use many of the same materials, and have comparable requirements for information, planning and controls.

The process of alloying the strengths of the companies that make up Warnaco for overall profit consistency begins with three-year plans for the divisions and corporation. These look to trends and seek to spot markets the company should be in, at the same time setting goals and operating parameters for all units.



Gus Mayer opened its 23rd store in February 1973, in Tulsa, and plans more.

Within this blueprint, specific business unit plans are developed each year. With review and approval, these become the standards against which each operation and manager is measured.

Monthly performance reviews by Corporate management with each group operations officer are designed to evaluate actual and anticipated progress against plan, identify weaknesses and opportunities within each business unit and develop action procedures appropriate to the circumstances.

By these means, timely steps can be taken to correct unfavorable variances and exploit opportunities not anticipated by the budgets in such operating areas as orders and shipments, gross margins, expenses, working capital and cash flow. Particular emphasis is placed on the profitable management of inventories, receivables and, of course, return on investment.

Obviously, the more the divisions can use and rely on systems made possible by the size of the corporation, the more efficient their individual operations can be. More important, freed of many administrative distractions, they can concentrate more on merchandising to their specific markets.

A key program here is development of standard systems for, among other things, order processing, line planning, material procurement, plant loading, costing and pricing. In addition to giving Corporate and the divisions a common language, this program makes available at minimal cost to each division some of the most sophisticated systems in industry, with constant expert updating.

Joint electronic data processing is another major area where scale obviously makes possible not only substantial economies but also sophistication that would probably not be available otherwise. The first phase of a two-coast regionalization of EDP recently went into operation with the start-up of Warnaco's Eastern Regional Computer Center in Bridgeport. Equipped with a new IBM 370/145 system, this center will by year-end replace smaller, earlier-generation systems operated separately until now by Warner's, Puritan, Medford, Rosanna, Hathaway and the Gus Mayer stores. The second phase of this program is the start-up this month of an IBM 370/135 system at Portland, Oregon, to handle jointly the now separate EDP processing of White Stag, Hirsch-Weis and possibly High Tide.

Subways are for advertising Warner's bras, in Stockholm, top, and London, middle.
Jupiter, meanwhile, shoots its sportswear in a New York subway for a Paris ad.

The two systems are designed to be totally compatible with each other and could, if it is desirable at some point, be blended into a single system. Input is from stations at the divisions, with each controlling its own data entry, scheduling, retrieval and interpretation. The eastern regional computer is capable of handling up to 15 programs at one time and operates around the clock. The powerful new systems massively improve overall computer responsiveness, shortening the delivery time for specific jobs in some cases from days on previous equipment to hours on the new systems.

Market intelligence is another area where the size of the whole provides leverage that none of the parts could afford individually. During 1972, Warnaco's Market Research department was restructured to provide wider services to all divisions like the market testing strategies that have been extremely important in helping Warner's increase share of market. Surveys and research were conducted in 1972 for a number of other divisions. In one case, pre-testing with a consumer sample has enabled High Tide to buy fabrics and sew them into combinations that are outselling models selected on the previous basis. Another service already being used by five divisions streamlines forecasting of product demand by styles.

A greater emphasis is being placed on interdivisional contracting, with obvious benefits in fuller utilization of plants and equipment and capture of profits that would otherwise go outside the corporation. And a management development program is making it possible for people to move into opportunities in other divisions that might not be immediately open to them in their own, at the same time helping divisions find needed managers with known and tested talents within the company.

Other centralized services available to the divisions include engineering services in connection with plant planning, construction and maintenance, as well as multi-divisional applications of mechanical and technical developments originating at research facilities of the corporation or divisions. A case in point would be a computer controlled warehousing system now under development that will be one of the most advanced in use anywhere in industry, eliminating manual picking of garments and improving space utilization for divisions taking advantage of the system by as much as 50 per cent.

Playmore girls' wear looks well, climbs well.

Croydon is Canada's leading rainwear maker.

Financial

Warnaco's financial position is strong, and the company's philosophy is to watch its ratios carefully, leaning to the conservative side, and to concentrate on improving return on investment particularly.

Long-term debt was largely restructured a year and a half ago with the sale of $15 million of notes, half of them convertible, to the corporation's insurance company lenders. Short-term bank lines were renewed and expanded in 1972, to allow for volume growth, but the practice is to utilize only up to 75 per cent of these lines at any time. Any future financing will probably be through equity, although such a move would likely be of relatively small proportions.

The increase of dividends to the 80-cent annual rate reflects profit growth and Warnaco's policy of paying out between 30 and 40 per cent of net.

The capital gain from the sale of Warner Packaging will be booked in 1973, and the proceeds will be used to reduce short-term debt early in the year.

Devaluation of the dollar in February of this year has had little net effect on Warnaco. Gains on assets held abroad were added to previously established reserves. While devaluation increases import costs, it also makes the company's much larger volume of domestic production more competitive at home. Warnaco products sold in overseas markets are made there. The company has factored into its budgets and planned results for 1973 higher costs for raw goods and labor, here and abroad. Productivity gains are essential to offset these higher costs, and all divisions have vigorous programs for such improvements. Warnaco considers this struggle against inflationary forces one of its most important challenges.

Corporate Identification

With its diversification in the last dozen or more years — and with its name change from The Warner Brothers Company to Warnaco Inc. five years ago — the company has suffered some loss of identity.

One survey last year showed that in many cases shareowners do not even know what categories of apparel the company is in, or its major brand names. Other surveys indicated that very few financial and retailing executives had any top-of-the-mind (unaided) awareness of Warnaco as an apparel company. (This is true of most companies whose names do not incorporate well-known brands.) Recognition was better when these executives were shown a group of apparel company names, but, still, Warnaco was the least known in one group of eight names.

To improve awareness and understanding of Warnaco, the company began a modest television and print corporate advertising program last year, mainly in the New York area. With heavy product and name exposure, this advertising identifies Warnaco as the "quiet company behind some of the finest names in apparel," such as Hathaway, Puritan, White Stag and Warner's.

The advertising ran on TV news and coverage of the national political conventions and elections, and in a few key publications. Results, as measured by the A. C. Nielsen Company, showed increases of up to 20 per cent in aided and unaided awareness among financial and retailing groups. Advertising awareness of Warnaco doubled with one group and quadrupled with the other.

This program will be continued in 1973, again on TV news and special events and in some print media. Its impact will be extended through greater emphasis on identification of Warnaco with its well-known brands in divisional promotion and advertising.

FINANCIAL HIGHLIGHTS

WARNACO INC.

(Dollars in thousands, except per share data)

	1972	1971	1970	1969	1968
From continuing operations:					
Net sales	$282,510	$246,108	$220,920	$230,473	$220,448
Operating income before income taxes	13,686	9,446	6,123	13,338	15,366
Operating income	9,228	6,648	4,461	7,900	8,195
(Loss) income from discontinued operations, net of taxes(1)	(370)	273	(786)	333	386
Income from operations	8,858	6,921	3,675	8,233	8,581
Extraordinary loss, net of taxes(2)	—	—	2,590	—	—
Net income	8,858	6,921	1,085	8,233	8,581
Income per common share and common equivalent share(3):-					
Income from operations:					
Continuing	$2.30	$1.65	$1.09	$1.99	$2.07
Net from operations	$2.21	$1.72	$ .90	$2.07	$2.17
Net income after extraordinary loss	$2.21	$1.72	$ .26	$2.07	$2.17
Net income assuming full dilution	$2.10	$1.70	$ .26	$2.07	$2.17
Dividends per common share	$ .60	$ .60	$ .82½	$ .90	$ .80
Current assets	$131,848	$122,538	$114,143	$105,895	$101,326
Current liabilities	47,446	40,049	47,572	36,173	41,666
Working capital	84,402	82,489	66,571	69,722	59,660
Property, plant, and equipment, net	28,811	29,012	31,184	31,547	29,613
Long-term debt	45,504	44,556	36,680	33,492	25,651
Common stockholders' equity	69,367	62,191	58,805	61,405	55,339

(1) Relates to discontinued domestic operations. See Note 4 of Notes to Consolidated Financial Statements.
(2) Relates to the cost of discontinuing an operation.
(3) See Note 8 of Notes to Consolidated Financial Statements.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of Warnaco Inc.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, retained income and changes in financial position present fairly the consolidated financial position of Warnaco Inc. and its subsidiaries at December 30, 1972 and January 1, 1972, the results of their operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Stamford, Connecticut
February 16, 1973

Price Waterhouse & Co.

STATEMENTS OF CONSOLIDATED INCOME AND RETAINED INCOME

WARNACO INC.

	Year (52 weeks) Ended December 30, 1972	Year (52 weeks) Ended January 1, 1972
INCOME		
From continuing operations:—		
Net sales	$282,510,000	$246,108,000
Costs and expenses (Note 5):		
Cost of goods sold	197,231,000	172,487,000
Selling, administrative and general expenses	66,509,000	59,750,000
Interest expense, net	4,423,000	3,858,000
Employees' retirement plans (Note 6)	1,579,000	1,355,000
Royalty income	(918,000)	(788,000)
	268,824,000	236,662,000
Income before income taxes	13,686,000	9,446,000
Provision for income taxes (Note 7)	4,458,000	2,798,000
Income from continuing operations	9,228,000	6,648,000
(Loss) income from discontinued operations (Note 4)	(370,000)	273,000
NET INCOME FOR YEAR	$ 8,858,000	$ 6,921,000
Income (loss) per common share and common equivalent share (Note 8):—		
Income from operations:		
Continuing	$ 2.30	$ 1.65
Discontinued	(.09)	.07
Net	$ 2.21	$ 1.72
Assuming full dilution:		
Continuing	$ 2.18	$ 1.63
Discontinued	(.08)	.07
Net	$ 2.10	$ 1.70
RETAINED INCOME		
At beginning of year	$ 54,852,000	$ 50,405,000
Net income for year	8,858,000	6,921,000
	63,710,000	57,326,000
Cash dividends declared:—		
Preferred:		
$3 noncumulative	6,000	6,000
$1.50 cumulative convertible	320,000	348,000
	326,000	354,000
Common	2,260,000	2,120,000
	2,586,000	2,474,000
At end of year (Note 10)	$ 61,124,000	$ 54,852,000

CONSOLIDATED BALANCE SHEET

WARNACO INC.

ASSETS	December 30, 1972	January 1, 1972
Current Assets:		
Cash	$ 8,627,000	$ 6,118,000
Time deposits	750,000	5,355,000
Accounts receivable, less allowances for doubtful accounts of $985,000 — 1972 and $1,123,000 — 1971	53,588,000	49,157,000
Tax refunds receivable	427,000	813,000
Investment in federally insured mortgages	—	2,275,000
Inventories, at the lower of cost or market (Note 9)	61,344,000	56,053,000
Prepaid expenses	3,669,000	2,767,000
Net assets of division to be sold (Note 4)	3,443,000	—
Total current assets	131,848,000	122,538,000
Property, Plant and Equipment, at cost (Note 5):		
Land and land improvements	1,628,000	1,718,000
Buildings and building improvements	24,593,000	23,556,000
Machinery and equipment	27,719,000	29,806,000
	53,940,000	55,080,000
Less — Accumulated depreciation	25,129,000	26,068,000
	28,811,000	29,012,000
Other Assets:		
Investment in federally insured mortgages	3,950,000	1,124,000
Other investments and noncurrent receivables	4,073,000	2,464,000
Deferred charges	2,031,000	1,450,000
Excess of investment over net assets acquired, less accumulated amortization of $615,000 — 1972 and $507,000 — 1971	2,197,000	1,139,000
	12,251,000	6,177,000
	$172,910,000	$157,727,000

LIABILITIES AND STOCKHOLDERS' EQUITY	December 30, 1972	January 1, 1972
Current Liabilities:		
Notes payable	$ 13,514,000	$ 4,326,000
Current portion of long-term debt	1,991,000	7,070,000
Accounts payable	17,328,000	16,768,000
Employees' retirement plans (Note 6)	1,137,000	1,030,000
Dividends payable	653,000	643,000
Accrued liabilities	9,950,000	9,183,000
Federal and other income taxes	2,873,000	1,029,000
Total current liabilities	47,446,000	40,049,000
Long-Term Debt (Note 10)	45,504,000	44,556,000
Deferred Incentive Compensation	2,051,000	1,830,000
Stockholders' Equity (Notes 10 and 11):—		
Capital stock without par value:—		
Preferred stock:		
$3 noncumulative, stated at $100 per share Shares authorized and issued — 2,065	206,000	206,000
$1.50 cumulative convertible sinking fund, stated at $3.75 per share Shares authorized — 251,717 Shares issued — 215,397 — 1972; 229,186 — 1971	808,000	859,000
Aggregate liquidation value — $8,616,000 — 1972 9,167,000 — 1971		
Common stock, stated at $3.75 per share Shares authorized — 7,500,000 Shares issued — 3,807,924 — 1972; 3,711,119 — 1971	14,280,000	13,917,000
Capital in excess of stated value	2,221,000	2,154,000
Retained income	61,124,000	54,852,000
Less — Treasury stock at cost:		
Common shares 19,674	486,000	486,000
$1.50 Preferred shares 7,011 — 1972; 6,800 — 1971	244,000	210,000
	77,909,000	71,292,000
Commitments (Note 12)	—	—
	$172,910,000	$157,727,000

STATEMENT OF CHANGES IN CONSOLIDATED FINANCIAL POSITION

WARNACO INC.

	Year (52 weeks) Ended December 30, 1972	Year (52 weeks) Ended January 1, 1972
SOURCE OF FUNDS		
From continuing operations:—		
Net income	$ 9,228,000	$ 6,648,000
Add income charges not affecting working capital in the year:		
Depreciation and amortization	3,314,000	3,235,000
Deferred incentive compensation	229,000	296,000
Working capital provided by continuing operations for the year	12,771,000	10,179,000
Increase in long-term debt through borrowings	2,035,000	15,000,000
Increase in long-term debt resulting from acquisitions	1,798,000	—
Sale of property	527,000	2,650,000
Stock options exercised	559,000	87,000
Noncurrent prepaid tax relating to 1970 liquidation	—	2,160,000
Investment in federally insured mortgages	—	1,215,000
Miscellaneous	—	571,000
	17,690,000	31,862,000
From discontinued operations:—		
Net (loss) income	(370,000)	273,000
Add income charges not affecting working capital in the year:		
Depreciation and amortization	437,000	458,000
Deferred incentive compensation	(8,000)	21,000
Working capital provided by discontinued operations for the year	59,000	752,000
Sale of property	2,267,000	—
	2,326,000	752,000
	20,016,000	32,614,000
DISPOSITION OF FUNDS		
Reduction in long-term debt	2,885,000	7,124,000
Additions to property, plant, and equipment	5,858,000	4,088,000
Additions to property, plant, and equipment resulting from acquisitions	378,000	—
Investment in federally insured mortgages	2,826,000	—
Dividends	2,586,000	2,474,000
Investment in excess of net assets of acquired companies	1,166,000	—
Loans to affiliates	1,040,000	110,000
Investment in stock of unconsolidated companies	958,000	948,000
Acquisition and retirement of Warnaco stock	172,000	1,952,000
Miscellaneous	234,000	—
	18,103,000	16,696,000
Increase in working capital	$ 1,913,000	$15,918,000

	December 30, 1972	January 1, 1972
Analysis of working capital change:—		
Increase (decrease) in current assets:		
Cash and time deposits	$ (2,096,000)	$ 3,354,000
Accounts receivable	4,431,000	5,103,000
Tax refunds receivable	(386,000)	(1,842,000)
Investment in federally insured mortgages	(2,275,000)	253,000
Inventories	5,291,000	1,788,000
Prepaid expenses	902,000	(261,000)
Net assets of division to be sold	3,443,000	—
	9,310,000	8,395,000
Increase (decrease) in current liabilities:		
Notes payable	9,188,000	(9,608,000)
Current portion of long-term debt	(5,079,000)	5,541,000
Accounts payable and accrued liabilities	1,327,000	(3,596,000)
Employees' retirement plans	107,000	298,000
Dividends payable	10,000	(14,000)
Federal and other taxes	1,844,000	(144,000)
	7,397,000	(7,523,000)
Increase (decrease) in working capital	$ 1,913,000	$15,918,000

Note 1 — Summary of Accounting Policies:

Basis of Consolidation — The accompanying consolidated financial statements comprise the accounts of the parent company and all subsidiary companies.

Investments in certain domestic and foreign companies representing between 20% and 50% ownership are being accounted for by use of equity accounting.

Translation of Foreign Currencies — The financial statements of subsidiaries outside of the United States are translated into United States dollars using current rates of exchange for current assets and current liabilities and historical rates for noncurrent accounts. Gain on translation is not material and is deferred in the accompanying balance sheet.

Inventories — Generally, inventories are priced at standard costs which approximate current actual costs. Of the inventories approximately 15% is priced on the last-in first-out basis.

Depreciation and Amortization — Provision is made for depreciation of the cost of items of property, plant and equipment. Such provisions are computed over the estimated useful lives of the assets using the straight-line method for assets acquired prior to 1954, and generally using a declining balance method for assets acquired thereafter. The excess of investment over net assets of companies acquired, including those accounted for by use of equity accounting, is being amortized over not more than forty years.

Income Taxes — The provision for income taxes recognizes the effect of income not subject to United States income tax. The Job Development tax credit is accounted for on the flow through method. United States income taxes are not provided on undistributed earnings of subsidiaries located outside the United States because such taxes in excess of those provided by the subsidiaries would be immaterial in amount.

Employees' Retirement Plans — The company has established noncontributory pension and profit sharing retirement plans for the benefit of qualifying employees. Contributions are deposited with trustees who administer the assets of the plans which are in excess of the actuarially computed value of vested benefits. The company follows the practice of accruing and funding current service costs and interest on unfunded past service liability.

Research and Development — Market research and product development costs are charged to operations when incurred.

Store Opening Expense — The expenses relating to the opening of new stores of the retail division are charged to operations when incurred.

Note 2 — Foreign Operations:

Net income of foreign subsidiaries was $1,372,000 and $1,151,000 for fiscal years 1972 and 1971, respectively. The net assets of these subsidiaries were $6,046,000 and $4,355,000 at December 30, 1972 and January 1, 1972, respectively.

Note 3 — Acquisitions:

Early in 1972 Warnaco purchased for cash all of the capital stock of Croydon Manufacturing Co. Ltd. of Montreal, and the results of its operations for the year 1972 have been included in the accompanying statement of consolidated income. If the company had been acquired at the beginning of 1971 the consolidated net sales, net income and net income per common share and common equivalent share for 1971 would have been approximately $251,954,000, $7,120,000 and $1.77, respectively. An additional cash payment not to exceed $1,000,000 may be required in 1974 or 1975 based upon earnings of Croydon.

Early in 1973 Warnaco purchased all of the capital stock of Botnick Industries Ltd. and Harold Botnick Inc. of Montreal for $2,500,000, subject to reduction under certain circumstances. For the year ended December 31, 1972 these companies had sales of $3,667,000 and a net income of $402,000.

Note 4 — Discontinued Operations:

Discontinued operations include the operating results and the liquidation loss of an operation discontinued in 1972 and the operating results of an operation to be sold in 1973. Sales of discontinued operations were $15,641,000 ($15,295,000 — 1971), and an income tax reduction amounted to $299,000 ($398,000 tax provision in 1971). The operation to be disposed of in 1973 will be sold for $7,350,000 subject to closing adjustments. The gain on sale of approximately $2,000,000 after related expenses and income taxes will be included in the financial results of 1973.

Note 5 — Depreciation and Amortization:

Provision of $3,206,000 for 1972 ($3,152,000 in 1971) was included in costs and expenses for depreciation and amortization of property, plant, and equipment. Amortization of excess of investment over net assets acquired amounted to $108,000 in 1972 ($83,000 in 1971).

Note 6 — Employees' Retirement Plans:

The amount necessary to provide fully for the unfunded portion of past service costs was estimated to be $4,051,000 at December 30, 1972.

Note 7 — Income Taxes:

The provision for income taxes on continuing operations is comprised of:

	1972	1971
Federal and state:		
Currently payable	$3,049,000	$2,025,000
Prepaid	(71,000)	(142,000)
Foreign	1,480,000	915,000
	$4,458,000	$2,798,000

Prepaid taxes arise because the company charges certain costs and expenses against book income in periods prior to those in which they become deductible for tax purposes.

The cumulative amount of undistributed earnings of foreign subsidiaries at December 30, 1972 on which the company has not provided United States income taxes which may become due if such earnings were remitted to the company is approximately $3,963,000. Such taxes in excess of those provided by the subsidiaries would be immaterial in amount.

The Job Development tax credit was $119,000 for 1972 ($57,000 — 1971).

Note 8 — Net Income per Common Share and Common Equivalent Share:

The computation of average common shares and common equivalent shares (4,007,621 — 1972, 4,016,629 — 1971) recognizes common shares which would be issuable (a) upon conversion of the $1.50 preferred stock, (b) upon exercise of stock options and (c) based on the market value of Warnaco common stock and the current earnings levels of companies acquired in 1970. The fully diluted net income per share calculations for 1972 and 1971 further recognize the common shares which would be issuable upon the conversion of the convertible debt issued during 1971 and the related reduction of interest expense, net of income tax effect, assuming that conversion took place at the beginning of the year for 1972 and at date of issuance in 1971.

The effect of possible issuance of additional shares based on earnings of the acquired companies would not have a dilutive effect on income per common share and common equivalent share.

Note 9 — Inventories:

Inventories are comprised as follows:

	December 30, 1972	January 1, 1972
Finished goods	$33,017,000	$30,386,000
Work in process	10,941,000	11,446,000
Raw materials	17,386,000	14,221,000
	$61,344,000	$56,053,000

Note 10 — Long-term Debt:

Long-term debt (excluding installments maturing in less than a year), substantially all of which is owed to domestic lenders, consists of the following:

	December 30, 1972	January 1, 1972
5.5% notes payable, due 1973-1986	$14,650,000	$15,775,000
8.25% notes payable, due 1973-1989	9,200,000	9,600,000
9.25% notes payable, due 1974-1988	7,500,000	7,500,000
7% convertible notes payable, due 1982-1991	7,500,000	7,500,000
6.5% mortgage payable, due 1973-1992	1,842,000	1,917,000
2% - 6.3% capitalized lease obligations due 1973-1986	3,399,000	1,571,000
Other (interest 2.8% - 10%) due 1973-1984	1,413,000	693,000
	$45,504,000	$44,556,000

Approximate maturities of long-term debt are as follows: $2,757,000 — 1974; $2,630,000 — 1975; $2,862,000 — 1976; $2,599,000 — 1977; $2,618,000 — 1978.

The company has a revolving credit agreement in the amount of $22,000,000 of which $7,040,000 was included in notes payable at December 30, 1972. This agreement expires in June 1975.

The agreements relating to the 5.5%, 8.25%, 9.25% and 7% notes and the revolving credit agreement contain various restrictions, certain of which relate to the maintenance of specified consolidated working capital and the availability of retained income for the payment of cash dividends and purchase, redemption or retirement of the company's capital stock. Under the most restrictive of these, the company must maintain consolidated working capital of $65,000,000 and at December 30, 1972, $9,843,000 (to be increased by 50% of future consolidated net income) of retained income is not restricted with regard to payment of cash dividends, and the purchase, redemption or retirement of its capital stock.

Note 11 — Capital Stock and Capital in Excess of Stated Value:

	Capital Shares Issued: $3 Non-cumulative	Capital Shares Issued: $1.50 Cumulative Convertible	Capital Shares Issued: Common	Capital in Excess of Stated Value
January 2, 1971	3,970	243,775	3,710,988	$3,807,000
Conversions		(2,400)	3,600	(4,000)
Shares issued upon exercise of stock options			5,775	65,000
Shares issued based on performance of a company merged in 1970 and market price of Warnaco stock			131,754	(494,000)
Acquisition and retirement of stock	(1,905)	(12,189)	(140,998)	(1,187,000)
Other				(33,000)
January 1, 1972	2,065	229,186	3,711,119	2,154,000
Conversions		(8,200)	12,322	(15,000)
Shares issued upon exercise of stock options			40,887	406,000
Shares issued based on performance of a company merged in 1968 and market price of Warnaco stock			43,596	(164,000)
Acquisition and retirement of stock		(5,589)		(152,000)
Other				(8,000)
December 30, 1972	2,065	215,397	3,807,924	$2,221,000

Each share of $1.50 cumulative convertible sinking fund preferred stock is currently convertible at any time into 1.51 shares of common stock per resolution of the Board of Directors in April of 1972. Prior to this time it was convertible into 1.50 shares of common stock. It is redeemable at $40 per share after prior payment of the stated value of the $3 noncumulative preferred stock. The $1.50 cumulative convertible preferred stock is subject to a sinking fund sufficient to redeem 12,189 shares annually.

The terms, limitations, rights and preferences of the subordinated preferred stock (1,000,000 shares authorized, none issued) are to be set by the Board of Directors, except that it shall be subordinated as to dividends and distributions of assets to the $3 preferred stock and the $1.50 convertible preferred stock.

Shares of unissued common stock were reserved for:

	December 30, 1972	January 1, 1972
Qualified and non-qualified stock options granted (16,500 shares in 1972, 24,000 shares in 1971) at prices from $10.50 to $37.96	167,542	205,019
Conversion of $1.50 cumulative convertible sinking fund preferred stock	325,249	343,779
Possible issuance in connection with the deferred incentive compensation plan	50,000	50,000
Options which may be granted in the future under the company's stock option plans	158,591	163,069
Possible conversion of $7,500,000 of convertible debt at $21.75 per share	344,828	344,828
	1,046,210	1,106,695

In connection with mergers in 1970, the company is committed to issue up to 53,628 additional shares of common stock if specified conditions are met, including those regarding future net earnings of the merged companies and the market value of Warnaco common stock during various periods, the last of which ends October 26, 1974.

Note 12 — Leases:

Minimum annual rentals (exclusive of taxes, maintenance, etc.) under material leases expiring in the years 1973 through 1990, aggregated approximately $2,867,000 for 1972 ($2,734,000 — 1971) and will average approximately $2,355,000 for the next five years.

DIVISIONS, MANAGEMENT AND LOCATIONS

MEN'S WEAR	**Hathaway**	*President* LEONARD G. SAULTER *Main Offices* Waterville, Maine and New York, New York *Plants* Waterville, Dover-Foxcroft and Calais, Maine / Lowell, Massachusetts / Berlin, New Jersey and Ciales, Puerto Rico *Warehouses* Waterville, Maine and Lowell, Massachusetts
	Puritan	*President* LLOYD S. SCHAPER *Main Offices* New York, New York and Altoona, Pennsylvania *Plants* Pinetops, North Carolina / Altoona and Hamburg, Pennsylvania / Aguas Buenas and Cidra, Puerto Rico *Warehouses* Los Angeles, California and Duncansville, Pennsylvania
	Cresco	*Chairman* LAWRENCE S. BLOOM *President* STANLEY SALTZMAN *Main Offices* Ashland, Ohio and New York, New York *Plants* Ashland, Ohio and Cleveland, Tennessee *Warehouse* Ashland, Ohio
	Thane	*Chairman* LAWRENCE S. BLOOM *President* EDWIN BUCHNER, *Main Offices* New York, New York and Altoona, Pennsylvania *Plant* Altoona, Pennsylvania *Warehouse* Altoona, Pennsylvania
WOMEN'S WEAR	**White Stag**	*President* JOHN DETJENS, III *Main Offices* Portland, Oregon and New York, New York **Women's Sportswear/Outerwear** *President* HAROLD DOLGENOW **Junior/Girls' Sportswear** *President* JAMES HAMMILL *Plants* San Francisco, California / Sylvania, Georgia / Checotah, Oklahoma / Portland, Oregon / Murfreesboro, Tennessee and Fajardo, Puerto Rico *Warehouses* Portland, Oregon and Murfreesboro, Tennessee
	Rosanna	*President* WILLIAM J. O'BRIEN *Main Office* New York, New York *Warehouse* Woodbury, New Jersey
	High Tide	*President* MARVIN GOODMAN *Main Office* Los Angeles, California *Plant* Los Angeles, California *Warehouse* Los Angeles, California
	Jerry Silverman	*President* JEROME SILVERMAN *Main Office* New York, New York *Warehouse* New York, New York
	Medford-Playmore	*President* NORTON PORTNOFF *Main Offices* Medford, New Jersey and New York, New York *Plants* Medford, New Jersey and Lebanon, Pennsylvania *Warehouse* Medford, New Jersey
INTIMATE APPAREL	**Warner's**	*President* PHILIP J. LAMOUREUX, JR. *Main Offices* Bridgeport, Connecticut and New York, New York *Plants* Dothan, Alabama / Marianna, Florida / Moultrie and Thomasville, Georgia / Barbourville, Kentucky / Arecibo, Guaynabo and Vieques Island, Puerto Rico / La Romana, Dominican Republic and Juarez, Chihuahua, Mexico *Warehouses* Stratford, Connecticut and Thomasville, Georgia
	Beautiful Bryans	*President* HENRY T. BRYAN, III *Main Office* Chattanooga, Tennessee *Warehouse* Chattanooga, Tennessee
RECREATION AND LEISURE	**Hirsch-Weis**	*President* FRED MARKEWITZ *Main Offices* Portland, Oregon and Marina del Rey, California *Plants* Portland, Oregon and Marina del Rey, California *Warehouses* Portland, Oregon and Marina del Rey, California
	White Stag	*President* JOHN DETJENS, III *Main Offices* Portland, Oregon and New York, New York **Ski/Tenniswear** *President* DONALD E. KENNEDY *Plants* San Francisco, California / Portland, Oregon and Murfreesboro, Tennessee *Warehouses* Portland, Oregon and Murfreesboro, Tennessee
INTERNATIONAL	**Warnaco of Canada**	*President* JAMES C. WALKER *Main Offices* Ottawa and Prescott, Ontario and Montreal, Quebec *Plants* Ottawa and Prescott, Ontario and Montreal (2), Quebec *Warehouses* Ottawa and Prescott, Ontario and Montreal (2), Quebec
	Warner's International	*Managing Director, Europe* ROY N. SWANSON *Plants* Dour and Frameries, Belgium / Nottingham and Scunthorpe, England / Toluca, Mexico and Dromore, Northern Ireland *Warehouses* Frameries, Belgium / Nottingham, England and Toluca, Mexico
RETAILING	**Gus Mayer**	*President* JACK M. WEISS *Main Offices* New Orleans, Louisiana and New York, New York *Stores* **Gus Mayer Stores:** Louisville (2), Kentucky / Baton Rouge and New Orleans (6), Louisiana / Jackson, Mississippi / Oklahoma City (2) and Tulsa, Oklahoma / Memphis (4) and Nashville (2), Tennessee and Beaumont, Texas **The Blum Store:** Bala Cynwyd, Exton Square and Philadelphia, Pennsylvania and Moorestown, New Jersey **Berkeley's:** Fresno, California *Distribution Center* New York, New York

Transfer Agent
CHEMICAL BANK/20 PINE STREET/NEW YORK, NEW YORK 10015

Registrar
MORGAN GUARANTY TRUST CO. OF NEW YORK
23 WALL STREET/NEW YORK, NEW YORK 10015

Independent Accountants
PRICE WATERHOUSE & CO./986 BEDFORD STREET
STAMFORD, CONNECTICUT 06905

Annual Meeting

The annual meeting of shareowners will be held at 10:30 A.M. on Friday, April 27, 1973, at the Connecticut National Bank, Room 400, 886 Main Street, Bridgeport, Connecticut. Shareowners of record on February 26, 1973 will be entitled to vote in person or by proxy at this meeting.

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WARNACO INC. 350 LAFAYETTE ST.
BRIDGEPORT, CONNECTICUT 06602